

## Message Text

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43

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05

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USMISSION NATO

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

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AMEMBASSY STOCKHOLM

USMISSION GENEVA

USMISSION OECD PARIS

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TAGS: ELAB, EGEN, PINT, DA

SUBJECT: UNEMPLOYMENT IN DENMARK: POLICY OR PROBLEM

SUMMARY. SINCE ITS FORMATION A YEAR AGO, POUL HARTLING'S  
LIBERAL GOVERNMENT HAS TACITLY, BUT CONSISTENTLY, PURSUED A  
POLICY OF TOLERATING A RELATIVELY HIGH LEVEL OF UNEMPLOYMENT  
AS A MEANS OF DEPRESSING INFLATIONARY PRESSURE, ESPEICALLY  
EXCESSIVE WAGE DEMANDS. THIS POLICY, CONTRARY TO THE  
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TRADITIONAL SCANDINAVIAN ECONOMIC OBJECTIVE OF FULL-EMPLOYMENT,

IS BEGINNING TO TURN INTO A REAL PROBLEM AS TY GERNAL  
ECONOMIC RECESSION THREATENS TO PUSH DANISH UNEMPLOYMENT - ALREADY  
ONE OF THE HIGHEST IN EUROPE - TO A WORRISOME PEAK OF  
7-9 PERCENT IN JANUARY AND FEBRUARY.

THE GOVERNMENT HAS THUS FAR REFRAINED FROM ANY  
SUBSTANTIAL MOVE TO STIMULATE EMPLOYMENT, OR EVEN TO  
PROVIDE PALLIATIVE PUBLIC WORKS PROJECTS, UNTIL AFTER  
THE NATION-WIDE WAGE NEGOTIATIONS ARE COMPLETED. THE  
GOVERNMENT HAS CALLED FOR A NEGOTIATED SETTLEMENT  
BETWEEN EMPLOYERS AND TRADE UNION CONFEREATIONS BY  
JANUARY 1 AND IS NOW INTERVENING WITH ITS OWN  
PACKAGE PLAN (ACTUALLY A TOTAL INCOMES POLICY PROPOSAL)  
SINCE IT APPEARS THAT THE JANUARY 1 DEADLINE CANNOT BE MET.  
THE SOCIAL DEMOCRATS AND OTHER OPPOSITION PARTIES,  
AWARE THAT THE GOVERNMENT INTENDS TO CALL ELECTIONS IF  
NO SETTLEMENT IS REACHED, ARE MOUNTING A CAMPAIGN TO  
CONVINCE THE ELECTORATE THAT THE GOVERNMENT'S POLICY  
REGARDING UNEMPLOYMENT IS THE REAL PROBLEM. THE NATION-  
WIDE LABOR DEOMONSTRATION NOVEMBER 26 WAS PART OF THIS  
CAMPAIGN. END SUMMARY.

1. UNEMPLOYMENT IN DENMARK, EXPRESSED AS AN ANNUAL  
AVERAGE, HAS TRADITIONALLY RUN ABOUT TWO PERCENT,MADE  
UP OF APPROXIMATELY ONE PERCENT FRICITIONAL AND ONE  
PERCENT SEASONAL COMPONENTS. EXPRESSED IN MONTHLY  
AVERAGES - AS IS MORE COMMUN IN EUROPE - THE CURVE  
NORMALLY STARTS AROUND THREE PERCENTHFOR JANUARY AND  
FEBRUARY WITH A SEASONAL TREND DOWNWARD TO BELOW ONE  
PERCENT FOR THE MONTHS OF MAY TO OCTOBER AND THEN  
UPWARD AGAIN TO THREE PERCENT FOR DECEMBER. (NOTE:  
DANISH ENEMPLOYMENT STATISTICS, AS REPORTED, FOR  
EXAMPLE,IN DECEMBER 4 EDITION OF TIME, ARE BASED ON  
INSURED WORKERS ONLY, SOME .9 MILLION OUT OF 2.4  
MILLION IN THE LABOR FORCE. CONSEQUENTLY, THEY OVER-  
STATE THE ACTUAL UNEMPLOYMENT IN THE TOTAL LABOR FORCE.  
ALL UNEMPLOYMENT FIGURES IN THIS TELEGRAM HAVE BEEN  
DEFLATED (USING A .6 DEFLATOR - BASED ON STRUCTURAL  
ANALYSIS OF THE LABOR FORCE) TO MAKE THEM COMPARABLE  
TO U.S. FIGURES.)

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2. SINCE THE INQUGURATION OF THE LIBERAL GOVERNMENT  
IN DECEMBER 1973, COINCIDENT WITH THE ENERGY CRISIS,  
UNEMPLOYMENT HAS STEADILY RISEN TO THREE OR FOUR TIMES  
NORMAL LSIDLS. IN CONTRAST TO THE USUAL CURVE, MONTHLY  
UNEMPLOYMENT IN 1974 HAS NEVER BEEN BELOW 1.8 PERCENT  
AND HAS INCREASED SINCE MID-SUMMER TO THE PRESENT 5.3  
PERCENT. IN MID-NOVEMBER THERE WERE 75 THOUSAND

REGISTERED UNEMPLOYED AMONG THE 900 THOUSAND INSURED WORKERS. SINCE THE PERCENTAGE OF UNEMPLOYED IS LESS AMONG THE UNINSURED, IT IS ESTIMATED THAT ABOUT 125 THOUSAND, OUT OF THE TOTAL LABOR FORCE OF 2.4 MILLION, ARE PRESENTLY OUT OF A JOB, GIVING DENMARK ONE OF THE HIGHEST LEVELS, IF NOT THE HIGHEST LEVEL OF UNEMPLOYMENT IN THE EC.

3. A MAJOR CAUSE OF THIS HIGH UNEMPLOYMENT IS THE SHARP REDUCTION OF MORE THAN 30 PERCENT IN THE VOLUME OF RESIDENTIAL HOUSING UNDER CONSTRUCTION. WHEREAS IN THE THIRD QUARTER OF 1973 SOME 64 THOUSAND UNITS WERE UNDER CONSTRUCTION, THE 1974 THIRD QUARTER FIGURE IS ESTIMATED TO BE AROUND 46 THOUSAND. HOUSING CONSTRUCTION HAS BEEN AN IMPORTANT CAUSE OF OVERHEATING IN THE DANISH ECONOMY, CONTROL OF WHICH HAS BEEN THE PRIMARY OECD RECOMMENDATION FOR SEVERAL YEARS. SHORTLY BEFORE JULY 1, 1972, THE VAT TAX ON CONSTRUCTION MATERIALS WAS IMPOSED BY THE THEN SOCIAL DEMOCRATIC GOVERNMENT, BUT HOUSING UNDER CONSTRUCTION ON THAT DATE WAS EXEMPTED. THOUSANDS OF NEW STARTS FROM JUNE 1972 HAVE, CONSEQUENTLY, KEPT PRIVATE HOUSING CONSTRUCTION AT ABOVE-CAPACITY UNTIL THIS SUMMER. THE END OF THAT BOOM COMBINED WITH A TOTAL FREEZE IMPOSED ON PUBLIC CONSTRUCTION HAVE RESULTED IN A SHARP DOWNTURN IN NEW BUILDING STARTS AND UNEMPLOYMENT IS NOW BETTER THAN 10 PERCENT IN THE CONSTRUCTION TRADES. SPIN-OFF INTO SECONDARY AREAS, SUCH AS BUILDING MATERIALS, MANUFACTURING, AND TRANSPORT IS EXTENSIVE. ACCORDING TO A LABOR MINISTRY ESTIMATE, FOR EVERY THREE CONSTRUCTION WORKERS LAID OFF, TWO WORKERS IN OTHER INFRASTRUCTURE AREAS LOSE THEIR JOBS.

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4. A SECOND FACTOR BEHIND THE CURRENT HIGH UNEMPLOYMENT RATE IS THE RAPID ESCALATION OF WAGES OVER THE PAST FOUR YEARS. IN 1974, THE AVERAGE BLUE-COLLAR WAGE IN DENMARK WAS 73 PERCENT ABOVE THE 1970 AVERAGE, CONSIDERABLY HIGHER THAN THE CORRESPONDING INCREASE IN OTHER EUROPEAN COUNTRIES, E.G., SWEDEN 38 PERCENT, NORWAY 43, W. GERMANY 40, FRANCE 51, AND ENGLAND 55. ALTHOUGH DANISH PRODUCTIVITY ALSO INCREASED RAPIDLY IN 1972 AND 1973, IT DID NOT KEEP PACE WITH WAGES IN SUCH LABOR-INTENSIVE INDUSTRIES AS TEXTILES, ESPECIALLY AFTER EQUAL PAY FOR WOMEN WAS ADOPTED IN 1973. AS A CONSEQUENCE, THE TEXTILE INDUSTRY IN JUTLAND BECAME NON-COMPETITIVE AND LOCAL UNEMPLOYMENT

RATES IN THAT PART OF THE COUNTRY HAVE RISEN TO OVER 10 PERCENT.

5. THE HARTLING GOVERNMENT HAS QUIETLY TOLERATED THESE HIGHER LEVELS OF UNEMPLOYMENT AS AN ANTI-INFLATIONARY TOOL AGAINST A REPETITION OF THE WAGE DRIFT EXPLOSION OF 1972-73. THE GOVERNMENT HAS PUBLICLY STATED THAT THIS UNEMPLOYMENT SHOULD BE A TEMPORARY PHENOMENON PERMITTING A SHIFT FROM RELATIVELY NON-PRODUCTIVE SECTORS TO THE EXPORT INDUSTRIES. WHEN THE EFFECTS OF THE GENERAL RECESSION HOWEVER BEGAN TO BE FELT THIS AUTUMN, THIS POLICY BECAME A POLITICAL PROBLEM. MANY POLITICAL PARTIES, INCLUDING THE GOVERNMENT'S ALLIES, THE RADICALS AND CONSERVATIVES, HAVE CRITICIZED THE GOVERNMENT FOR NOT PUSHING A MORE ACTIVE EMPLOYMENT PROBLEM BY LARGE SCALE PUBLIC WORKS PROJECTS. INSTEAD, IT HAS MAINTAINED THAT A PROMPT SETTLEMENT OF NEXT YEAR'S WAGE CONTRACT NEGOTIATIONS - THUS GIVING INDUSTRY A FIRM ESTIMATE OF ANTICIPATED LABOR COSTS - IS THE MOST NEEDED ECONOMIC STIMULANT, AND IT HAS DEMAND THAT THE EMPLOYER AND TRADE UNION FEDERATIONS REACH THE FRAMEWORK OF A SETTLEMENT BY JANUARY 1.

6. THE LABOR PARTIES (SOCIAL DEMOCRATS, SOCIALIST PEOPLES, AND COMMUNISTS) AND THE DANISH TRADE UNION FEDERATION (LO) HAVE VIEWED THIS DECREED DEADLINE WITH LIMITED OFFICIAL USE

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GREAT SUSPICION. THEY BELIEVE THAT THE HARTLING GOVERNMENT IS USING HIGH UNEMPLOYMENT TO PLACE LABOR IN A WEAK BARGAINING POSITION, AND THEY ARE WELL-AWARE THAT HARTLING INTENDS TO CALL AN ELECTION IF THEY REJECT WHAT APPEARED TO THE GENERAL PUBLIC TO BE A "REASONABLE SETTLEMENT." THE LO, CONSEQUENTLY, HAS POSTPONED AS LONG AS POSSIBLE THE COMMENCEMENT OF THE WAGE NEGOTIATIONS AND STATED THAT AGREEMENT CANNOT BE EXPECTED MUCH BEFORE THE PRESENT TWO-YEAR CONTRACTS EXPIRE ON MARCH 1.

7. TO THWART THIS FOOT DRAGGING BY THE TRADE UNIONS, THE GOVERNMENT IS TODAY PRESENTING ITS OWN PROPOSED SOLUTION BUILT AROUND A WAGE/PRICE FREEZE AND THE SUSPENSION OR MODIFICATION OF THE COST-OF-LIVING INDEXING SYSTEM. THIS PROPOSAL WILL BYPASS THE NEGOTIATING PROCESS AND BE DIRECTLY INTRODUCED TO THE FOLKETING ON THE GROUNDS THAT THE UNEMPLOYMENT SITUATION AND THE ECONOMIC CRISIS REQUIRE AN EXTRA-ORDINARY, LEGISLATED ACTION. IF THE PROPOSAL IS REJECTED BY THE LABOR PARTIES, HARTLING WILL HAVE A READY-MADE ELECTION PLATFORM AND A READY-MADE IDENTIFIED OPPOSITION. WHILE THIS SCENARIO IS BEING

PLAYED OUT, HOWEVER, UNEMPLOYMENT IN DENMARK WILL  
CONTINUE TO RISE.  
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